

FINANCIAL STATEMENTS AND REPORT OF
INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS
LINCOLN COUNTY HOSPITAL
MARCH 31, 2015 AND 2014

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LINCOLN COUNTY HOSPITAL
MANAGEMENT'S DISCUSSION AND ANALYSIS
Years ended March 31, 2015 and 2014

Our discussion and analysis of the financial performance of Lincoln County Hospital provides a narrative overview of the Hospital's financial activities for the years ended March 31, 2015 and 2014. Please read it in conjunction with the accompanying financial statements.

Financial highlights

The Hospital reported an operating loss of \$143,406 in 2015, operating income of \$91,945 in 2014, and an operating loss of \$355,895 in 2013. After consideration of tax appropriations and other nonoperating revenues and expenses, the Hospital's net position decreased by \$47,728 or 3 percent in 2015 and increased by \$168,651 or 11 percent in 2014.

Using these financial statements

The Hospital's financial statements consist of three statements - a Statement of Net Position; a Statement of Revenues, Expenses, and Changes in Net Position; and a Statement of Cash Flows. These financial statements and related notes provide information about the activities of the Hospital, and resources held by or for the benefit of the Hospital.

One of the most important questions asked about the Hospital's finances is, "Is the Hospital as a whole better or worse off as a result of the year's activities?" The Statement of Net Position and the Statement of Revenues, Expenses, and Changes in Net Position report information about the Hospital's resources and its activities in a way that helps answer this question. These statements include all restricted and unrestricted assets and all liabilities using the accrual basis of accounting. Revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the Hospital's net position and changes in them. The Hospital's net position - the difference between assets and liabilities may be thought of as one way to measure the financial health, or financial position. Over time, increases or decreases in the Hospital's net position are one indicator of whether its financial health is improving or deteriorating. Consideration must also be given to other nonfinancial indicators, such as changes in the Hospital's patient base and measures of the quality of service it provides to the community, as well as local economic factors to assess the overall health of the Hospital.

The final required statement is the Statement of Cash Flows. The statement reports cash receipts, cash payments, and net changes in cash resulting from operating, investing, and financing activities. It provides answers to such questions as "Where did cash come from?", "What was cash used for?", and "What was the change in cash balance during the reporting period?"

LINCOLN COUNTY HOSPITAL
MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED
Years ended March 31, 2015 and 2014

Assets, liabilities, and net position

Table 1 below summarizes the Hospital's assets, liabilities, and net position for the latest three fiscal years.

Table 1: Assets, Liabilities, and Net Position

	<u>2015</u>	<u>2014</u>	<u>2013</u>
Assets			
Current assets	\$ 2,107,833	\$ 2,237,455	\$ 1,530,904
Capital assets, net	5,326,402	6,015,586	5,869,566
Other noncurrent assets	<u>885,246</u>	<u>1,009,246</u>	<u>1,176,507</u>
Total assets	<u>8,319,481</u>	<u>9,262,287</u>	<u>8,576,977</u>
Current liabilities	968,134	1,567,251	764,624
Noncurrent liabilities	<u>5,650,966</u>	<u>5,946,927</u>	<u>6,232,895</u>
Total liabilities	<u>6,619,100</u>	<u>7,514,178</u>	<u>6,997,519</u>
Total net position	<u>\$ 1,700,381</u>	<u>\$ 1,748,109</u>	<u>\$ 1,579,458</u>

Our ratio of current assets to current liabilities increased to 2.2 in 2015, from a ratio of 1.4 in 2014, and 2.0 in 2013. Current assets are impacted by the payment position with Medicare, timing of withdrawals from board funds, change in net accounts receivable, and the change in current liabilities. The Hospital's current liabilities declined \$599,117 in 2015 as compared to 2014 due primarily to the payment of the capital cost liability associated with implementing the electronic health record system that was accrued in 2014 and paid off in 2015. The month-to-month cash flow of the Hospital affects the amount of funds requested from Board funds to cover monthly operations.

The Hospital's capital acquisitions were \$39,187, \$804,792, and \$18,325 during 2015, 2014, and 2013. The significant additions in 2014 were primarily related to the implementation of the electronic health record infrastructure and were paid for in fiscal year 2015 after receipt of incentive payments from Medicare. The remaining change in capital assets, net, results from the normal annual depreciation provisions of \$728,371, \$659,772, and \$574,255 during 2015, 2014, and 2013. The increase in depreciation expense in 2015 is due to the Hospital placing approximately \$766,000 of its electronic health records system into service during 2014.

Other noncurrent assets consist of Board funds that are available to fund the continuing operation of the Hospital, a debt service reserve fund, funds set aside for future replacement of capital assets, and funds set aside for payment of future health claims expense. These balances will change as tax appropriations and contributions are received and funds are dispersed to the Hospital's operating cash account. These funds decreased by \$92,374 in 2015 and decreased by \$179,638 in 2014. These funds are important in operating the Hospital on a day-to-day basis and to manage through periods of lower cash flows. Also included in other noncurrent assets are funds held by the Lincoln County Public Building Commission (PBC) which are for current debt service requirements.

LINCOLN COUNTY HOSPITAL
MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED
Years ended March 31, 2015 and 2014

Operating results and changes in net position

In 2015, the Hospital's net position decreased by \$47,728 or 3 percent. This change is made up of different components as displayed below in Table 2.

Table 2: Operating Results and Changes in Net Position

	<u>2015</u>	<u>2014</u>	<u>2013</u>
Operating revenues			
Net patient service revenue	\$ 6,292,145	\$ 6,234,349	\$ 5,934,370
Electronic health record incentive revenue	95,041	662,152	
Other operating revenue	<u>916,108</u>	<u>67,851</u>	<u>74,208</u>
Total operating revenues	<u>7,303,294</u>	<u>6,964,352</u>	<u>6,008,578</u>
Operating expenses			
Salaries and benefits	3,798,925	3,686,207	3,633,840
Supplies and other	2,919,404	2,526,428	2,156,378
Depreciation and amortization	<u>728,371</u>	<u>659,772</u>	<u>574,255</u>
Total operating expenses	<u>7,446,700</u>	<u>6,872,407</u>	<u>6,364,473</u>
Operating income (loss)	(143,406)	91,945	(355,895)
Nonoperating revenues net of expenses	<u>95,678</u>	<u>76,706</u>	<u>61,093</u>
Change in net position	<u>\$ (47,728)</u>	<u>\$ 168,651</u>	<u>\$ (294,802)</u>

The first component of the overall change in the Hospital's net position is its operating income (loss) - generally the difference between net patient service revenue and other operating revenues and the expenses incurred to generate those revenues. In 2015, the Hospital's operating income (loss) declined by \$235,351 in comparison to 2014, while in 2014 the operating income improved by \$447,840 in comparison to 2013. The Hospital's net patient service revenue in 2015 increased by 0.9 percent and in 2014 increased by 5.1 percent over the previous year. The change in net patient service revenue is affected by changes in charges to patients, payment rates by third-party payors, patient volumes, the type of services provided, bad debts and, to a greater extent, the change in Medicare reimbursable costs. The increase in net revenues was accompanied with an 8.4 percent increase in operating expenses during 2015, and an 8.0 percent increase in 2014.

In both 2015 and 2014, the Hospital received 76 percent of its net patient revenue from the Medicare program with these revenues determined based on the Hospital's status as a critical access hospital provider. This designation results in Hospital services to Medicare beneficiaries being reimbursed primarily based upon allowable costs and has helped stabilize the Hospital's net patient service revenues. This high concentration of Medicare revenues, however, makes it challenging for the Hospital to generate operating profits, as revenues from non-Medicare payers are not sufficient to cover the costs that are not reimbursed

LINCOLN COUNTY HOSPITAL
MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED
Years ended March 31, 2015 and 2014

by the Medicare program. The Hospital's net revenues from Medicare were reduced by approximately \$90,000 in 2015 and 2014, respectively, due to the sequestration payment cuts implemented by Medicare which became effective on April 1, 2013.

In 2015 and 2014, the Hospital recognized electronic health record incentive revenues which relate to the Hospital certifying and meeting the first stages of electronic health record meaningful use. The Hospital recognized \$95,041 in 2015 from Medicaid and \$662,152 in 2014 from the Medicare program.

Employee salaries, wages, and benefits increased by \$112,718 or 3.1 percent in 2015, and increased by \$52,367 or 1.4 percent in 2014, as compared with the previous year. Salaries, wages, and employee benefits represent 60.4 percent, 59.1 percent, and 61.2 percent of total net patient service revenue in 2015, 2014, and 2013. The increase in 2015 resulted primarily from employing a new provider in 2015 to assist in the coverage of the emergency room. This position helped reduce the amount of expense related to contract emergency room providers. Employee benefits as a percentage of salary and wage expense was 28.1 percent in 2015, 29.3 percent in 2014, and 25.3 percent in 2013. The decline in 2015 was due to a \$60,000 decrease in the employer pension contributions resulting primarily from forfeitures.

Supplies and other expenses increased by \$392,976 in 2015, by \$370,050 in 2014, and by \$88,593 in 2013. Items affecting the 2015 to 2014 comparison include an increase in 340B related expenses for dispensing and drug costs totaling approximately \$700,000. This increase was partially offset by a decrease of \$125,000 related to emergency room coverage. Items affecting the 2014 to 2013 comparison included an increase in contract nursing expense of \$205,000, an increase in administrative purchased services of \$79,000, an increase in physical, occupational, and speech therapy contract expense of \$75,000, and an increase in building and equipment repairs and maintenance by \$43,000. These increases were partially offset by a \$161,000 decrease in ER physician service expense.

Nonoperating revenues (expenses) include an annual tax appropriation from Lincoln County, noncapital grants and contributions, interest expense, and investment income earned on investments. The Hospital is highly dependent on these nonoperating revenues to offset operating losses and to maintain the financial health necessary to ensure that the Hospital continues to provide high quality health care services to our patients.

This financial report is designed to provide a general overview of the Hospital's finances and to discuss the significant changes in our financial statements. If you have any questions about the report or need additional financial information, contact the Administration Office at Lincoln County Hospital, 624 N. 2nd, Lincoln, Kansas 67455.



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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Board of Trustees
Lincoln County Hospital

We have audited the accompanying financial statements of net position and the related statements of revenues, expenses, and changes in net position and statements of cash flows of Lincoln County Hospital, and of its discretely presented component unit, as of and for the years ended March 31, 2015 and 2014, and the related notes to the financial statements, which collectively comprise the Hospital's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the Kansas Municipal Audit Guide. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activity and discretely presented component unit of Lincoln County Hospital as of March 31, 2015 and 2014, and the changes in net position and cash flows for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

Other-Matters

Required supplementary information

Accounting principles generally accepted in the United States of America require that management's discussion and analysis on pages 1 through 4 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other information

Our audits were conducted for the purpose of forming an opinion on the financial statements that collectively comprise Lincoln County Hospital's basic financial statements as a whole. The supplementary information presented on pages 25 and 26 is for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects in relation to the financial statements as a whole.

Wendy Mae Nelson & Johnson 22C

Topeka, Kansas
July 30, 2015

FINANCIAL STATEMENTS

LINCOLN COUNTY HOSPITAL
STATEMENTS OF NET POSITION
March 31,

ASSETS

	2015		2014	
	<u>Hospital</u>	<u>Component unit</u>	<u>Hospital</u>	<u>Component unit</u>
CURRENT ASSETS				
Cash	\$ 559,667	\$ 51,319	\$ 231,012	\$ 45,274
Investments		5,734		5,722
Assets limited as to use	217,708		167,660	
Accounts receivable, net of allowance for uncollectible accounts of \$119,398 in 2015 and \$164,811 in 2014	594,960		693,276	
Electronic health record incentive receivable	95,041		662,152	
Other receivables	135,454			
Inventories	140,912		127,245	
Prepaid expenses and other	78,901		65,803	
Estimated third-party payor settlements	285,190		290,307	
Total current assets	2,107,833	57,053	2,237,455	50,996
ASSETS LIMITED AS TO USE				
By Board of Trustees				
For operations	534,825		576,154	
For debt service reserve	240,426		203,103	
For capital assets	51,935		51,630	
For health claims	93,553		182,226	
By Public Building Commission	124,155		123,971	
	1,044,894	-	1,137,084	-
Less amounts required to meet current obligations	217,708		167,660	
	827,186	-	969,424	-
CAPITAL ASSETS, net	5,326,402	-	6,015,586	-
OTHER ASSETS				
Other investments	58,060		39,822	
	58,060	-	39,822	-
Total assets	<u>\$ 8,319,481</u>	<u>\$ 57,053</u>	<u>\$ 9,262,287</u>	<u>\$ 50,996</u>

The accompanying notes are an integral part of these statements.

LIABILITIES AND NET POSITION

	2015		2014	
	<u>Hospital</u>	<u>Component unit</u>	<u>Hospital</u>	<u>Component unit</u>
CURRENT LIABILITIES				
Current maturities of long-term obligations	\$ 295,961	\$ -	\$ 285,968	\$ -
Accounts payable	53,315		122,404	
Electronic health record purchases payable			723,057	
Salaries payable	180,123		159,199	
Payroll taxes payable	86,968		74,668	
Vacation benefits payable	112,399		98,138	
Other accrued expenses	215,449		79,211	
Interest payable	23,919		24,606	
Total current liabilities	968,134	-	1,567,251	-
LONG-TERM OBLIGATIONS, less current maturities				
	<u>5,650,966</u>		<u>5,946,927</u>	
Total liabilities	<u>6,619,100</u>	<u>-</u>	<u>7,514,178</u>	<u>-</u>
NET POSITION				
Invested in capital assets net of related debt	(610,282)		(929,249)	
Restricted				
For debt service	124,155		123,971	
For specific operating activities		45,614		39,557
Unrestricted	<u>2,186,508</u>	<u>11,439</u>	<u>2,553,387</u>	<u>11,439</u>
Total net position	<u>1,700,381</u>	<u>57,053</u>	<u>1,748,109</u>	<u>50,996</u>
Total liabilities and net position	<u>\$ 8,319,481</u>	<u>\$ 57,053</u>	<u>\$ 9,262,287</u>	<u>\$ 50,996</u>

LINCOLN COUNTY HOSPITAL
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
Year ended March 31,

	2015		2014	
	<u>Hospital</u>	<u>Component unit</u>	<u>Hospital</u>	<u>Component unit</u>
Operating revenues				
Net patient service revenue	\$ 6,292,145	\$ -	\$ 6,234,349	\$ -
Electronic health records incentive revenue	95,041		662,152	
Other	<u>916,108</u>	<u>36,782</u>	<u>67,851</u>	<u>20,189</u>
Total operating revenues	<u>7,303,294</u>	<u>36,782</u>	<u>6,964,352</u>	<u>20,189</u>
Operating expenses				
Salaries and wages	2,966,455		2,850,717	
Employee benefits	832,470		835,490	
Supplies and other	2,919,404	30,975	2,526,428	2,198
Depreciation	<u>728,371</u>		<u>659,772</u>	
Total operating expenses	<u>7,446,700</u>	<u>30,975</u>	<u>6,872,407</u>	<u>2,198</u>
Operating income (loss)	<u>(143,406)</u>	<u>5,807</u>	<u>91,945</u>	<u>17,991</u>
Nonoperating revenues (expenses)				
Tax appropriations	360,969		375,094	
Investment income	28,748	250	25,521	174
Interest expense	(310,015)		(324,223)	
Noncapital grants and contributions	<u>15,976</u>		<u>314</u>	
Total nonoperating revenues (expenses)	<u>95,678</u>	<u>250</u>	<u>76,706</u>	<u>174</u>
Excess of revenues over expenses (expenses over revenues) and change in net position	<u>(47,728)</u>	<u>6,057</u>	<u>168,651</u>	<u>18,165</u>
Net position beginning of year	<u>1,748,109</u>	<u>50,996</u>	<u>1,579,458</u>	<u>32,831</u>
Net position end of year	<u>\$ 1,700,381</u>	<u>\$ 57,053</u>	<u>\$ 1,748,109</u>	<u>\$ 50,996</u>

The accompanying notes are an integral part of these statements.

LINCOLN COUNTY HOSPITAL
STATEMENTS OF CASH FLOWS
Year ended March 31,

	2015		2014	
	<u>Hospital</u>	<u>Component unit</u>	<u>Hospital</u>	<u>Component unit</u>
Cash flows from operating activities				
Receipts from and on behalf of patients	\$ 6,395,578	\$ -	\$ 6,044,617	\$ -
Payments to or on behalf of employees	(3,728,006)		(3,684,967)	
Payments for supplies and services	(3,015,258)	(30,975)	(2,471,868)	(2,198)
Other receipts and payments	<u>1,555,610</u>	<u>36,782</u>	<u>67,851</u>	<u>20,189</u>
Net cash provided (used) by operating activities	<u>1,207,924</u>	<u>5,807</u>	<u>(44,367)</u>	<u>17,991</u>
Cash flows from noncapital financing activities				
Tax appropriations	360,969		375,094	
Noncapital grants and contributions	<u>15,976</u>		<u>314</u>	
Net cash provided by noncapital activities	<u>376,945</u>	<u>-</u>	<u>375,408</u>	<u>-</u>
Cash flows from capital and related financing activities				
Purchase of capital assets	(762,244)		(82,735)	
Principal paid on long-term obligations	(285,094)		(286,919)	
Interest paid on long-term obligations	<u>(311,576)</u>		<u>(325,766)</u>	
Net cash used by capital and related financing activities	<u>(1,358,914)</u>	<u>-</u>	<u>(695,420)</u>	<u>-</u>
Cash flows from investing activities				
Changes in				
Internally designated by Board of Trustees	92,374		179,638	
Investments		(12)		(18)
Other investments	(18,238)		(39,822)	
Assets held by Public Building Commission	(184)		(16,113)	
Investment income received	<u>28,748</u>	<u>250</u>	<u>25,521</u>	<u>174</u>
Net cash provided by investing activities	<u>102,700</u>	<u>238</u>	<u>149,224</u>	<u>156</u>
Change in cash and cash equivalents	328,655	6,045	(215,155)	18,147
Cash and cash equivalents at beginning of year	<u>231,012</u>	<u>45,274</u>	<u>446,167</u>	<u>27,127</u>
Cash and cash equivalents at end of year	<u>\$ 559,667</u>	<u>\$ 51,319</u>	<u>\$ 231,012</u>	<u>\$ 45,274</u>

The accompanying notes are an integral part of these statements.

LINCOLN COUNTY HOSPITAL
STATEMENTS OF CASH FLOWS - CONTINUED
Year ended March 31,

	2015		2014	
	<u>Hospital</u>	<u>Component unit</u>	<u>Hospital</u>	<u>Component unit</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities				
Operating income (loss)	\$ (143,406)	\$ 5,807	\$ 91,945	\$ 17,991
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities				
Depreciation	728,371		659,772	
Provision for bad debts	219,099		256,230	
Changes in				
Accounts receivable	(120,783)		(366,557)	
Estimated third-party payor settlements	5,117		(79,405)	
Other receivables	431,657		(662,152)	
Inventories	(13,667)		(27,637)	
Prepaid expenses and other	(13,098)		1,373	
Accounts payable and accrued expenses	<u>114,634</u>		<u>82,064</u>	
Net cash provided (used) by operating activities	<u>\$ 1,207,924</u>	<u>\$ 5,807</u>	<u>\$ (44,367)</u>	<u>\$ 17,991</u>

The accompanying notes are an integral part of these statements.

LINCOLN COUNTY HOSPITAL
NOTES TO FINANCIAL STATEMENTS
March 31, 2015 and 2014

NOTE A - DESCRIPTION OF REPORTING ENTITY AND SUMMARY OF SIGNIFICANT
ACCOUNTING POLICIES

1. Reporting entity

Lincoln County Hospital (the Hospital) is owned by Lincoln County, Kansas, and is operated by the Board of Trustees of the Hospital, a seven-member governing board appointed by the governing body of the County. The Hospital, which was organized in 1952, is a critical access hospital located in Lincoln, Kansas. The Hospital can sue and be sued, and can buy, sell, or lease real property. Bond issuances must be approved by the County. The Hospital is a component unit of the County.

2. Component unit

The financial statements include the discrete presentation of financial data of Lincoln County Hospital and Health Care Foundation (the Foundation). The component unit is reported separately to emphasize that it is legally separate from the Hospital.

The Foundation, which is a not-for-profit corporation, was established in 2005 for the purpose of providing financial assistance to the Hospital. The Foundation is administered by a self-perpetuating Board of Directors. One of the six members of the Foundation's Board is also a member of the Hospital's Board of Trustees.

3. Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

4. Basis of accounting

The Hospital uses enterprise fund accounting. Revenues and expenses are recognized on the accrual basis using the economic resources measurement focus.

5. Cash and cash equivalents

Cash and cash equivalents include all cash and highly-liquid debt instruments with maturities of three months or less excluding any such amounts included in assets limited as to use.

6. Allowance for doubtful accounts

The Hospital provides for accounts receivable that could become uncollectible in the future by establishing an allowance to reduce the carrying value of such receivables to their estimated net realizable value. The Hospital estimates this allowance based on the aging of its accounts receivable and its historical collection experience for each type of payor.

LINCOLN COUNTY HOSPITAL
NOTES TO FINANCIAL STATEMENTS - CONTINUED
March 31, 2015 and 2014

NOTE A - DESCRIPTION OF REPORTING ENTITY AND SUMMARY OF SIGNIFICANT
ACCOUNTING POLICIES - Continued

7. Inventories

Inventories are stated at cost as determined using the first-in, first-out method.

8. Assets limited as to use

Assets limited as to use include assets set aside by the Board of Trustees for on-going hospital operations, for the replacement of capital assets, for debt service reserve, and for payment of partially self-insured health claims, over which the Board retains control and may at its discretion subsequently use for other purposes; and assets under a bond indenture agreement that are held by the Lincoln County Public Building Commission. Assets limited as to use that are required for obligations classified as current liabilities are reported in current assets.

9. Capital assets

Capital assets, including assets recorded as capital leases, are stated at cost. Depreciation and amortization of capital assets are provided on the straight-line method over the estimated useful lives of the assets which are substantially in conformity with the guidelines established by the American Hospital Association.

The costs of maintenance and repairs are charged to operating expenses as incurred. The costs of significant additions, renewals, and betterments to depreciable properties are capitalized and depreciated over the remaining or extended useful lives of the item or the properties.

10. Other investments

The Hospital's investment in Community Holdings LLC is stated at the total cost of its capital contributions.

11. Vacation benefits payable

Employees of the Hospital are entitled to paid vacation depending on length of service and whether they are full or part time. Upon resignation, termination, or retirement from service with the Hospital, employees are entitled to payment for all accrued vacation, up to an allowable maximum. The Hospital accrues vacation benefits as earned.

12. Accrued health insurance claims

The Hospital is self-insured for health insurance claims of its employees. Management estimates the net liability for reported and unreported claims incurred as of the end of each reporting period. The estimate is based on known claims and historical claims experience.

Although management believes the estimate for accrued health insurance claims is reasonable, it is possible that actual incurred claims expense may vary from the estimate.

LINCOLN COUNTY HOSPITAL
NOTES TO FINANCIAL STATEMENTS - CONTINUED
March 31, 2015 and 2014

NOTE A - DESCRIPTION OF REPORTING ENTITY AND SUMMARY OF SIGNIFICANT
ACCOUNTING POLICIES - Continued

13. Net position

Net position of the Hospital is classified in three components. "Net position invested in capital assets net of related debt" consists of capital assets net of accumulated depreciation and reduced by the balances of any outstanding borrowings used to finance the purchase of assets. "Restricted net position" is noncapital net position that must be used for a particular purpose, as specified by creditors, grantors, or contributors external to the Hospital, including amounts deposited with the Lincoln County, Kansas, Public Building Commission as required under the Pledge of Revenues and Operation Agreement signed in connection with the issuance of bonds by the Lincoln County, Kansas, Public Building Commission. "Unrestricted net position" is remaining net position that does not meet the definitions of the other two components of net position.

14. Operating revenues and expenses

The Hospital's statement of revenues, expenses, and changes in net position distinguishes between operating and nonoperating revenues and expenses. Operating revenues result from exchange transactions associated with providing health care services, which is the Hospital's principal activity. Nonexchange revenues, including noncapital grants and contributions and tax appropriations, are reported as nonoperating revenues. Operating expenses are all expenses incurred to provide health care services, other than financing costs.

15. Net patient service revenue

Net patient service revenue is reported at established charges with deductions for discounts, contractual adjustments, and provision for bad debts, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

16. Cost of borrowing

Interest costs including amortization of bond premiums incurred on borrowed funds during the period of construction of capital assets are capitalized as a component of the cost of acquiring those assets.

Deferred financing costs incurred in connection with the issuance of long-term debt are expensed as incurred.

17. Grants and contributions

From time to time, the Hospital receives grants and contributions from individuals and private organizations. Revenues from grants and contributions, including contributions of capital assets, are recognized when all eligibility requirements, including time requirements, are met. Grants and contributions may be restricted for specific operating purposes or for capital purposes. Amounts that are unrestricted or that are restricted to a

LINCOLN COUNTY HOSPITAL
NOTES TO FINANCIAL STATEMENTS - CONTINUED
March 31, 2015 and 2014

NOTE A - DESCRIPTION OF REPORTING ENTITY AND SUMMARY OF SIGNIFICANT
ACCOUNTING POLICIES - Continued

specific operating purpose are reported as nonoperating revenues. Amounts restricted to capital acquisitions are reported after nonoperating revenues and expenses.

18. Restricted resources

When the Hospital has both restricted and unrestricted resources available to finance a particular program, it is the Hospital's policy to use restricted resources before unrestricted resources.

19. Charity care

The Hospital provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Because the Hospital does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue. The amount of charity care provided by the Hospital is disclosed in Note B.

20. Income taxes

The Hospital is exempt from federal income taxes pursuant to Section 115 of the Internal Revenue Code.

NOTE B - NET PATIENT SERVICE REVENUE

The Hospital has agreements with third-party payors that provide for payments to the Hospital at amounts different from its established charge rates. The amounts reported on the statement of net position as estimated third-party payor settlements consist of management's best estimate of the differences between the contractual amounts for providing covered services and the interim payments received for those services. A summary of the payment arrangements with major third-party payors follows:

Medicare - Services rendered to Medicare program beneficiaries are paid under the provisions applicable to critical access hospitals. Payments to the Hospital under the critical access provisions for inpatient, outpatient, and swing-bed patient services are determined on the basis of allowable costs. The Hospital is paid for cost reimbursable and other services at tentative rates with final settlement determined after submission of annual cost reports by the Hospital and audits or reviews thereof by the Medicare administrative contractor. The Hospital's classification of patients under the Medicare program and the appropriateness of their admission are subject to an independent review by a peer review organization. The Hospital's Medicare cost reports have been audited or reviewed by the Medicare administrative contractor through March 31, 2013.

LINCOLN COUNTY HOSPITAL
NOTES TO FINANCIAL STATEMENTS - CONTINUED
March 31, 2015 and 2014

NOTE B - NET PATIENT SERVICE REVENUE - Continued

Medicaid - Services rendered to Medicaid program beneficiaries are paid at prospectively determined rates. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors.

Blue Cross and Blue Shield - All services rendered to patients who are insured by Blue Cross and Blue Shield are paid on the basis of prospectively determined rates per discharge or discounts from established charges.

A summary of gross and net patient service revenue follows:

	<u>2015</u>	<u>2014</u>
Gross patient service revenue		
Inpatient	\$2,863,754	\$3,342,071
Outpatient	3,787,374	3,813,382
Physician services	249,675	253,240
Rural health clinic	<u>606,881</u>	<u>596,738</u>
	7,507,684	8,005,431
Third-party contractual adjustments	(966,320)	(1,470,652)
Charity care	(21,432)	(31,245)
Other discounts and allowances	(8,688)	(12,955)
Provision for bad debts	<u>(219,099)</u>	<u>(256,230)</u>
Net patient service revenue	<u>\$6,292,145</u>	<u>\$6,234,349</u>

Revenue from the Medicare program accounted for approximately 76 percent of the Hospital's net patient service revenue during 2015 and 2014. Laws and regulations governing the Medicare program are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates could change by a material amount in the near term.

The Hospital maintains records to indentify and monitor the level of charity care it provides. The amount of charges forgone for services and supplies furnished under its charity care policy for 2015 and 2014 was \$21,432 and \$31,245, respectively. The Hospital estimates that the cost of providing charity care, based on overall cost-to-charge ratios obtained from the Hospital's cost report, was \$20,348 and \$27,990 for 2015 and 2014, respectively.

LINCOLN COUNTY HOSPITAL
NOTES TO FINANCIAL STATEMENTS - CONTINUED
March 31, 2015 and 2014

NOTE C - ELECTRONIC HEALTH RECORDS INCENTIVE REVENUE

The American Recovery and Reinvestment Act of 2009 (ARRA) provides for incentive payments under the Medicare and Medicaid programs for certain hospitals and physician practices that demonstrate meaningful use of certified electronic health record (EHR) technology. These provisions of ARRA are intended to promote the adoption and meaningful use of interoperable health information technology and qualified EHR technology.

The Hospital recognizes revenue for EHR incentive payments when it has reasonable assurance that it has demonstrated meaningful use of certified EHR technology for the applicable period and complied with the reporting conditions to receive the payment. The demonstration of meaningful use is based upon meeting a series of objectives and varies between hospital facilities and physician practices and between the Medicare and Medicaid programs. Additionally, meeting the objectives in order to demonstrate meaningful use becomes progressively more stringent as its implementation is phased in through stages as outlined by Centers for Medicare & Medicaid Services. The Hospital recognized \$95,041 of revenue for EHR incentive payments from the Medicaid program in 2015 and \$662,152 from the Medicare program in 2014. These amounts are included in operating revenues on the statement of operations.

NOTE D - ALLOWANCE FOR UNCOLLECTIBLE ACCOUNTS

The Hospital's allowance for uncollectible accounts on amounts due from patients was 69 percent and 82 percent of self-pay accounts receivable as of March 31, 2015 and 2014, respectively. The Hospital's net bad debt write-offs were \$264,511 and \$198,286 for the years ended March 31, 2015 and 2014, respectively. The Hospital did not change its charity care or uninsured discount policies during the years ended March 31, 2015 or 2014. The Hospital does not maintain a material allowance for uncollectible accounts from third-party payors, nor has it incurred any significant bad debt write-offs from third-party payors.

NOTE E - DEPOSITS WITH FINANCIAL INSTITUTIONS

Kansas statutes authorize the Hospital with certain restrictions, to deposit or invest in open accounts, time deposits, certificates of deposit, repurchase agreements, U.S. Treasury bills and notes, and the State Treasurer's investment pool. Kansas statutes also require that collateral be pledged for bank deposits with a fair value equal to total deposits in excess of F.D.I.C. coverage at any given time and the securities pledged be deposited with a Kansas state or national bank or trust company, the Federal Reserve Bank, or the Federal Home Loan Bank.

At March 31, 2015, the carrying amount of the Hospital's bank deposits was \$1,480,240 and the bank balances were \$1,609,256. Of the bank balances, \$313,542 was covered by federal depository insurance and \$1,295,714 was uninsured and collateralized with securities held by a third-party bank, but not registered in the Hospital's name.

LINCOLN COUNTY HOSPITAL
NOTES TO FINANCIAL STATEMENTS - CONTINUED
March 31, 2015 and 2014

NOTE F - ASSETS LIMITED AS TO USE

The composition of assets limited as to use which are invested in cash, is as follows:

	<u>2015</u>	<u>2014</u>
Board of Trustee funds	\$ 920,739	\$1,013,113
Under bond agreements	<u>124,155</u>	<u>123,971</u>
Total assets limited as to use	<u>\$1,044,894</u>	<u>\$1,137,084</u>

Assets limited as to use by bond agreements are held by the Lincoln County Public Building Commission for the repayment of principal and interest on the bonds.

NOTE G - CAPITAL ASSETS

	Balance March 31, <u>2014</u>	Transfers and <u>additions</u>	<u>Retirements</u>	Balance March 31, <u>2015</u>
Land	\$ 19,725	\$ -	\$ -	\$ 19,725
Land improvements	187,289			187,289
Buildings	2,020,511			2,020,511
Fixed equipment	5,384,022	26,000		5,410,022
Movable equipment	<u>2,737,835</u>	<u>13,187</u>		<u>2,751,022</u>
	<u>10,349,382</u>	<u>39,187</u>	<u>-</u>	<u>10,388,569</u>
Less accumulated depreciation and amortization				
Land improvements	56,500	12,458		68,958
Buildings	1,114,280	85,827		1,200,107
Fixed equipment	1,618,781	299,693		1,918,474
Movable equipment	<u>1,545,235</u>	<u>330,393</u>		<u>1,875,628</u>
	<u>4,334,796</u>	<u>728,371</u>	<u>-</u>	<u>5,063,167</u>
Projects in progress	<u>1,000</u>	<u>-</u>	<u>-</u>	<u>1,000</u>
Capital assets, net	<u>\$ 6,015,586</u>	<u>\$ (689,184)</u>	<u>\$ -</u>	<u>\$ 5,326,402</u>

LINCOLN COUNTY HOSPITAL
NOTES TO FINANCIAL STATEMENTS - CONTINUED
March 31, 2015 and 2014

NOTE G - CAPITAL ASSETS - Continued

	Balance March 31, 2013	Transfers and additions	Retirements	Balance March 31, 2014
Land	\$ 19,725	\$ -	\$ -	\$ 19,725
Land improvements	187,289			187,289
Buildings	2,020,511			2,020,511
Fixed equipment	5,374,018	10,004		5,384,022
Movable equipment	1,943,047	794,788		2,737,835
	<u>9,544,590</u>	<u>804,792</u>	<u>-</u>	<u>10,349,382</u>
Less accumulated depreciation and amortization				
Land improvements	44,042	12,458		56,500
Buildings	1,028,452	85,828		1,114,280
Fixed equipment	1,319,253	299,528		1,618,781
Movable equipment	1,283,277	261,958		1,545,235
	<u>3,675,024</u>	<u>659,772</u>	<u>-</u>	<u>4,334,796</u>
Construction in progress	-	1,000	-	1,000
Capital assets, net	<u>\$ 5,869,566</u>	<u>\$ 146,020</u>	<u>\$ -</u>	<u>\$ 6,015,586</u>

NOTE H - LONG-TERM OBLIGATIONS

Long-term obligations are summarized as follows:

	<u>2015</u>	<u>2014</u>
Capital lease obligation with the Lincoln County, Kansas Public Building Commission; interest rate of 4.375% to 5.50%; issued on December 15, 2008, in the original amount of \$6,300,000; due serially through March 1, 2035	\$5,690,000	\$5,855,000
Capital lease obligation; imputed interest rate of 5.50%; payable in monthly installments of \$10,850 through March 2017; collateralized by leased equipment with an amortized cost of \$213,670 at March 31, 2015	246,684	360,666

LINCOLN COUNTY HOSPITAL
NOTES TO FINANCIAL STATEMENTS - CONTINUED
March 31, 2015 and 2014

NOTE H - LONG-TERM OBLIGATIONS - Continued

	<u>2015</u>	<u>2014</u>
Capital lease obligation; interest rate of 4.625%; payable in monthly installments of \$2,053 through June 2014	\$ -	\$ 6,112
	5,936,684	6,221,778
Unamortized premium on bonds	<u>10,243</u>	<u>11,117</u>
	5,946,927	6,232,895
Less current maturities	<u>(295,961)</u>	<u>(285,968)</u>
	<u>\$5,650,966</u>	<u>\$5,946,927</u>

The following is a summary of changes in long-term obligations:

	<u>Capital lease obligations</u>	<u>Capital lease with PBC</u>	<u>Total long-term obligations</u>
Outstanding at April 1, 2013	\$ 498,697	\$ 6,010,000	\$ 6,508,697
Principal payments	<u>(131,919)</u>	<u>(155,000)</u>	<u>(286,919)</u>
Outstanding at March 31, 2014	366,778	5,855,000	6,221,778
Principal payments	<u>(120,094)</u>	<u>(165,000)</u>	<u>(285,094)</u>
Outstanding at March 31, 2015	<u>\$ 246,684</u>	<u>\$ 5,690,000</u>	<u>\$ 5,936,684</u>

On December 15, 2008, the Lincoln County, Kansas, Public Building Commission (PBC) issued Revenue Bonds, Series 2008 (the Bonds), in the amount of \$6,300,000, on behalf of the Hospital pursuant to a bond resolution dated December 1, 2008. The proceeds were used, together with other available funds of the Hospital, for the purpose of renovating the Hospital building (the Project).

The PBC is a municipal corporation created by the County to issue the Bonds. In connection with the issuance of the Bonds, the PBC, the County, and the Hospital entered into a lease agreement in which the PBC leased the Project to the County and the Hospital for rental payments sufficient to provide for the payment of principal and interest on the Bonds. The lease contains a covenant by the County to make all rental payments required under the lease from whatever source of revenues is legally available and to levy ad valorem taxes without limit if necessary to make such payments.

LINCOLN COUNTY HOSPITAL
NOTES TO FINANCIAL STATEMENTS - CONTINUED
March 31, 2015 and 2014

NOTE H - LONG-TERM OBLIGATIONS - Continued

In connection with the issuance of the Bonds, the Hospital and the County entered into a pledge of revenues agreement. Under the agreement, the Hospital pledged its net revenues to the County to secure the payment of principal and interest on the Bonds. The pledge of revenues agreement requires the Hospital to set aside certain amounts sufficient to pay principal and interest on the Bonds as payments are due. Such reserves were maintained and are included with assets limited as to use in the financial statements.

Scheduled annual debt service requirements on the lease with the Public Building Commission are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2016	\$ 175,000	\$ 287,027	\$ 462,027
2017	180,000	278,277	458,277
2018	190,000	269,278	459,278
2019	200,000	259,778	459,778
2020	210,000	251,028	461,028
2021-2025	1,205,000	1,101,940	2,306,940
2026-2030	1,535,000	778,763	2,313,763
2031-2035	1,995,000	337,115	2,332,115
	<u>\$5,690,000</u>	<u>\$3,563,206</u>	<u>\$9,253,206</u>

The following is a schedule of future minimum lease payments under capital leases, excluding the lease with the Public Building Commission, as of March 31, 2015:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2016	\$ 120,112	\$ 10,088	\$ 130,200
2017	126,572	3,628	130,200
	<u>\$ 246,684</u>	<u>\$ 13,716</u>	<u>\$ 260,400</u>

Total interest costs are summarized as follows:

	<u>2015</u>	<u>2014</u>
Interest incurred	\$ 310,889	\$ 325,120
Bond premium amortization	(874)	(897)
Interest expense	<u>\$ 310,015</u>	<u>\$ 324,223</u>

NOTE I - PENSION PLAN

Employees of the Hospital participate in the Lincoln County Hospital Employees' Pension Plan (the Plan), which is a defined contribution plan. The payroll for employees covered by the Plan for the years ended March 31, 2015 and 2014, was \$2,307,059 and \$2,621,215, respectively. Substantially all employees of the Hospital who are 21 years of age or older and work over 1,000 hours are eligible to participate in the Plan after one year of employment.

LINCOLN COUNTY HOSPITAL
NOTES TO FINANCIAL STATEMENTS - CONTINUED
March 31, 2015 and 2014

NOTE I - PENSION PLAN - Continued

Covered employees are required under the terms of the Plan to contribute 2.5 percent of the first \$7,800 of covered compensation plus 5 percent of the covered compensation exceeding \$7,800. Under the terms of the Plan, the Hospital contributes 4.5 percent of the first \$7,800 of covered compensation, plus 9 percent of the covered compensation exceeding \$7,800. Contributions to the Plan made by employees vest immediately, and contributions to the Plan made by the Hospital vest based upon the Plan's vesting schedule and the employees' years of service with the Hospital. The total cost of the Plan for the years ended March 31, 2015 and 2014, was \$140,706 and \$199,222, respectively.

NOTE J - CONCENTRATION OF CREDIT RISK

The Hospital grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements. The mix of patient accounts receivable from patients and third-party payors is as follows:

	<u>2015</u>	<u>2014</u>
Medicare	34.2%	51.1%
Medicaid	6.6	4.9
Blue Cross	20.5	11.0
Commercial insurance	19.0	10.3
Self-pay	<u>19.7</u>	<u>22.7</u>
	<u>100.0%</u>	<u>100.0%</u>

NOTE K - RISK MANAGEMENT

For the years ended March 31, 2015 and 2014, the Hospital was insured for hospital professional liability under a comprehensive hospital liability policy provided by an independent insurance carrier with limits of \$200,000 per occurrence up to an annual aggregate of \$600,000 for all claims made during the policy year. The Hospital is further covered by the Kansas Health Care Stabilization Fund for claims in excess of its comprehensive hospital liability policy up to \$800,000 pursuant to any one judgment or settlement against the Hospital for any one party, subject to an aggregate limitation for all judgments or settlements arising from all claims made in the policy year in the amount of \$2,400,000. All coverage is on a claims-made basis. The above policies were renewed on January 1, 2015, for the policy period from January 1, 2015 to January 1, 2016.

In addition to the risk disclosed elsewhere in these financial statements and notes thereto, the Hospital is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors or omissions; injuries to employees; and natural disasters. The Hospital purchases commercial insurance for these risks. Settled claims have not exceeded this commercial coverage in any of the past three years.

LINCOLN COUNTY HOSPITAL
NOTES TO FINANCIAL STATEMENTS - CONTINUED
March 31, 2015 and 2014

NOTE L - COMMITMENTS AND CONTINGENCIES

The Hospital purchases professional and general liability insurance to cover medical malpractice and other liability claims (see Note J). There have been claims asserted. Management believes that any claims asserted for incidents occurring through March 31, 2015, would be settled within the limits of insurance coverage.

NOTE M - EMPLOYEE HEALTH INSURANCE CLAIMS

The Hospital partially self-insures health insurance claims of its employees. The Hospital has reinsured a portion of its risk for such claims. The reinsurance arrangement covers annual claims in excess of \$25,000 for each covered individual. Covered employees also provide part of the funds to pay claims through monthly contributions at predetermined rates. The Hospital has retained a third-party administrator to process and settle claims. The Hospital reimburses the agent weekly for the amount of claims paid by the agent net of any amounts recovered by reinsurance. The Hospital's estimated liability for reported and unreported claims incurred as of March 31, 2015 and 2014, was \$182,611 and \$39,881, respectively. The Hospital has also recorded a receivable of \$112,804 related to estimated amounts recoverable from reinsurance at March 31, 2015.

The following is a summary of activity under this arrangement for the year ended March 31, 2015:

Estimated employee health insurance claims payable at the beginning of the year	\$ 39,881
Provision for employer's share of incurred claims and reinsurance expense for the period, net of any reinsurance proceeds	384,133
Employee contributions	26,183
Payments made for claims and reinsurance, net of reinsurance recoveries	<u>(267,586)</u>
Estimated employee health insurance claims claims payable at the end of the year	<u>\$ 182,611</u>

The Hospital has a 4.3 percent interest in Community Holdings LLC, which provides individual stop-loss coverage for incurred claims expense in excess of \$25,000 for each covered individual. The Hospital paid Community Holdings LLC approximately \$160,000 in 2015 for premiums under its partially self-insured health insurance plan.

NOTE N - RELATED PARTY TRANSACTIONS

Lincoln County levies and collects property taxes for the benefit of the Hospital. The Hospital received \$360,969 and \$375,094 in tax appropriations from Lincoln County in 2015 and 2014, respectively. The Hospital also received approximately \$15,000 in contributions from the Foundation during 2015.

LINCOLN COUNTY HOSPITAL
NOTES TO FINANCIAL STATEMENTS - CONTINUED
March 31, 2015 and 2014

NOTE N - RELATED PARTY TRANSACTIONS - Continued

A member of the Hospital's Board of Trustees provides pharmacy services to the Hospital. For the years ended March 31, 2015 and 2014, the Hospital expensed approximately \$32,000 and \$37,000 for these services, respectively.

At March 31, 2015, the Hospital has approximately \$1,545,000 of deposits with a local bank. The vice president of this bank serves on the Hospital's Board of Trustees.

NOTE O - SUBSEQUENT EVENTS

Management has evaluated all subsequent events through the date of the independent certified public accountants' report, the date the financial statements were available to be issued.

SUPPLEMENTARY INFORMATION

LINCOLN COUNTY HOSPITAL
PATIENT SERVICE REVENUE
Year ended March 31,

	2015			2014
	<u>Inpatient</u>	<u>Outpatient</u>	<u>Total</u>	<u>Total</u>
Routine services				
Adults and pediatrics	\$1,247,186	\$ -	\$1,247,186	\$1,485,937
Ancillary services				
Radiology, ultrasound, nuclear medicine, echocardiography, vascular studies, and mammography	63,457	418,688	482,145	459,910
CT scan and MRI	55,173	656,277	711,450	747,056
Laboratory and blood	248,322	1,027,963	1,276,285	1,231,522
Physical therapy	106,429	568,237	674,666	598,049
Occupational therapy	171,596	864	172,460	203,935
Speech therapy	6,365	14,349	20,714	15,881
Electrocardiology	10,498	63,249	73,747	72,014
Medical supplies	407,742	86,656	494,398	585,018
Pharmacy	522,710	358,714	881,424	1,095,040
Emergency room	982	230,839	231,821	235,889
Treatment room	21,369	316,777	338,146	408,278
Observation care	1,925	44,761	46,686	16,922
Clinic and physician		856,556	856,556	849,980
	<u>1,616,568</u>	<u>4,643,930</u>	<u>6,260,498</u>	<u>6,519,494</u>
	<u>\$2,863,754</u>	<u>\$4,643,930</u>	<u>7,507,684</u>	<u>8,005,431</u>
Less				
Contractual adjustments - third-party payors			(966,320)	(1,470,652)
Charity care			(21,432)	(31,245)
Administrative discounts			(8,688)	(12,955)
Provision for bad debts			(219,099)	(256,230)
Net patient service revenue			<u>\$6,292,145</u>	<u>\$6,234,349</u>

LINCOLN COUNTY HOSPITAL
OPERATING EXPENSES BY FUNCTIONAL DIVISION
Year ended March 31,

	2015			2014		
	Salaries	Supplies and other, employee benefits, and depreciation	Total	Salaries	Supplies and other, employee benefits, and depreciation	Total
Routine services						
Adults and pediatrics	\$ 568,096	\$ 423,912	\$ 992,008	\$ 625,960	\$ 469,250	\$ 1,095,210
Ancillary services						
Radiology, ultrasound, nuclear medicine, echocardiography vascular studies, and mammography	138,427	77,592	216,019	130,617	102,603	233,220
CT scan and MRI	15,033	51,977	67,010	18,278	47,430	65,708
Laboratory and blood	107,833	152,527	260,360	113,911	168,783	282,694
Physical therapy		239,377	239,377		206,613	206,613
Occupational therapy		101,017	101,017		100,294	100,294
Speech therapy		16,691	16,691		17,903	17,903
Electrocardiology	3,850		3,850	3,650		3,650
Medical supplies	21,465	81,792	103,257	21,620	60,361	81,981
Pharmacy		269,030	269,030		406,576	406,576
340(b) drug program		699,277	699,277			
Emergency room	479,673	89,772	569,445	380,959	187,767	568,726
Clinic and physician	640,867	193,461	834,328	662,438	239,409	901,847
Other	2,541		2,541	659		659
	<u>1,409,689</u>	<u>1,972,513</u>	<u>3,382,202</u>	<u>1,332,132</u>	<u>1,537,739</u>	<u>2,869,871</u>
General services						
Administration and						
general	117,211	207,066	324,277	63,090	284,725	347,815
Accounting	185,545	268,828	454,373	192,261	225,050	417,311
Plant operations and						
maintenance	48,990	243,055	292,045	48,116	293,773	341,889
Laundry	28,176	27,458	55,634	28,532	24,902	53,434
Housekeeping	75,989	37,452	113,441	93,883	45,180	139,063
Dietary	185,236	149,038	334,274	183,121	154,528	337,649
Nursing administration	148,974	43,056	192,030	86,150	17,243	103,393
Medical records	93,631	31,454	125,085	91,760	33,797	125,557
Education and						
activities	30,437	16,837	47,274	32,181	21,155	53,336
Patient care						
coordination	74,481	17,904	92,385	73,531	19,899	93,430
Employee benefits -						
other		313,301	313,301		234,677	234,677
Depreciation		728,371	728,371		659,772	659,772
	<u>988,670</u>	<u>2,083,820</u>	<u>3,072,490</u>	<u>892,625</u>	<u>2,014,701</u>	<u>2,907,326</u>
	<u>\$ 2,966,455</u>	<u>\$ 4,480,245</u>	<u>\$ 7,446,700</u>	<u>\$ 2,850,717</u>	<u>\$ 4,021,690</u>	<u>\$ 6,872,407</u>